

## **Budget and Fiscal Affairs Advisory Committee – November 18, 2014**

**Present:** Dave Baker, Dak Hardwick, Patrice Linehan, Skip Maginniss, Laurie MacNamara, John Renner (Chair), Leonard Rubenstein, Brent Simer, Clarence Tong

**Excused:** Engin Artemel, Jean Sun Kim, Benjamin Klein, Mike Wenk

**Staff:** Alex Braden, Morgan Routt

### **OMB Report**

The state is experiencing some increased revenue in corporate income, sales tax, and individual income so the outlook for the City is better than anticipated.

While setting budget guidance, the Council debated whether to hold the line on a tax increase or give more flexibility to the City Manager, ultimately voting 4-3 in favor of flexibility. There was also some discussion about funding for Alexandria City Public Schools (ACPS). The Council decided that any increased spending for schools should cover expenses related to higher enrollment or for cost savings. This stipulation includes capital improvement projects unless the City changes financing. The Capital Improvement Plan (CIP) was a key part of the conversation, especially storm water funding. The storm water expenses were built into the assumptions of the five-year financial forecast the staff presented to the Council. Getting the right mix of financing might save the City some money, but City leaders are still analyzing the optimal balance of cash and debt used to fund projects.

BPOL - The Council asked staff to submit an analysis of BPOL tax options in January. The City Manager has flexibility for making policy changes that were recommended by the BPOL Task Force to facilitate investment in small business, expand and diversify the tax base and stimulate economic growth in the long-term. There is a need to increase revenue in order to maintain current service levels. In addition to BPOL policy considerations, every City department is being asked to consider ways to generate income or cut expenses.

Civic Engagement - As the City continues to implement the civic engagement framework, staff added new opportunities for gathering input.

- The budget survey results are in and the topic of economic development was a high priority among citizens, which resonated internally with City staff.
- OMB staff met with board and commission chairs to collect input on budget priorities. This focus group information was added to the feedback staff received from the Council during their annual retreat to inform budget development.
- The City Manager will meet with department heads on Friday, November 21 to give them direction for developing their budgets, which will be submitted on December 23.

Budget Survey – The survey presented the long-term outcomes of the City, distilling approximately 29 goals down to 18 items. For example, long-term outcomes on air quality, soil and water were combined to form an item on improving the overall

environmental quality of the City. The public ranked the items, and the City received 663 valid responses with 1,200 views. Quality recreation time and neighborhood amenities ranked at the lower end of the results scale. Economic development ranked at the higher end of the ranking scale along with open and transparent government. People liked everything but some things had to drop to the bottom. There were many public comments about the language and the way the description of the outcomes may have impacted the survey results (e.g., using action verbs versus those that “continue” or “maintain” current levels).

Focus groups - The Council seemed pleased with the discussions they had with members of Committees and liked the idea of starting the conversations early. The staff asked the Boards and Commission members to help communicate with the public on budget issues. The staff recognizes that there is some misunderstanding about the budget cost drivers and more public education is needed. BFAAC advised staff to clearly articulate the goals of public outreach and identify some simple ways to measure success (e.g., reduced number of people testifying on budget topics during City Council meetings).

The staff plans to do some work around the budget themes that are emerging from the survey and focus groups so they can present some topics for community feedback. They will continue to do more outreach in December and January.

### **Budget Guidance**

As part of the guidance, the Council approved most of the add/delete recommendations made by the ad hoc committee. One notable change is that three Council members will need to approve any add or delete to justify action on a budget item. The add/delete list will also change. It will be published as an aggregate list instead of a detailed spreadsheet. More detailed proposals will be available when it comes time to make final decisions. The policy changes are intended to encourage the public to interact earlier and in a more proactive way. The Council will submit add/deletes to the OMB staff so they can verify numbers and validate assumptions before the public hearing at the end of March. There will be a preliminary discussion of add/delete items in April following the public hearing.

### **5-year Financial Plan**

The five-year financial plan successfully conveyed the message about the problem of expenditures outpacing revenue in the City. On average, revenue has grown by three percent while expenditures for schools have grown by 3.6 percent and capital expenditures increased 7.2 percent. Instead of talking about funding individual projects as part of a separate CIP discussion, the shift is to talking about capital projects in terms of the cost to the general fund. The CIP dollars are part of the general fund so they do not come from a separate funding stream. Because they are

the same dollars, they need to be connected to see the full picture of spending and help identify any systemic problem.

Expenditures are growing at different rates but they are all above revenue and affected by the stagnant economy. On top of the existing problem, there are also other items vying for funding (e.g., Waterfront Plan, Youth Master Plan and additional services). City leaders can't solve the problem in one year so it is important to think more long-term about how to rectify the deficit and achieve the goals of the community. Some investments might cost us money upfront but help grow revenue in the future. A multi-year plan is intended to help plan for this year and move us in the right direction over the five years. It is a tool to help Council make decisions about the budget or any other long-term decisions that impact the City.

Council asked the staff to review anticipated storm water expenses and the CIP. They are also expected to consider business tax reform and later address imbalances and deficiencies in the employee compensation planning. Many of the charts and long-range forecasts presented in the five-year plan are helpful in projecting ways to generate revenue. As some jurisdictions are focusing solely on residential growth and others are moving in the direction of commercial revenue growth, some policy decisions will have to be addressed by Council with public input. However, BFAAC can help the community understand the issues and test the assumptions of the long-range plan. BFAAC agreed to form a subcommittee that will review the document and comment on how it might be used as a communication tool to inform the community and help Council engage the public as they make decisions.

There was a brief discussion of whether a more detailed presentation by staff to City groups (e.g., Alexandria Convention and Visitors Bureau) could help raise awareness of the five-year planning document. BFAAC cannot weigh in on specific policy issues but might consider bringing attention to key issues in the report. The staff would also appreciate BFAAC feedback on the assumptions underlying the report, and will present some different forecasting scenarios (e.g., real estate tax, sales tax) to the group in the future. It is challenging to identify exact benchmarking data given the large number of confounding variables. Although we may not be able to make exact predictions, at least we can anticipate what the City needs.

There was discussion about the best time to present the second memo on revenue and the staff reminded BFAAC that there needs to be three days notice for any public meetings and the group working on the second memo will need to set a location and time. January 20<sup>th</sup> will be a definite meeting and the December meeting will be announced if scheduled.